



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, January 25, 2013
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:36 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Tom Connelly
Professor Dennis Hoffman
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the November 16, 2012 Public Meeting of the ASRS Board

It was noted the November 16, 2012 Public Meeting location was incorrect and should be corrected to reflect where the meeting occurred.

Motion: Mr. Mike Smarik moved to approve the minutes of the November 16, 2012 Public Meeting of the ASRS Board, corrected as noted. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 0 excused, and 2 vacancies, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. Robin Chesley's Appeal of his ASRS Retirement Date

Mr. Chesley was not present. A representative of Mr. Chesley was not present.

Ms. Jothi Beljan, Assistant Attorney General, presented the facts of the case.

- Mr. Chesley's age and years of total credited service did not equate to eighty (80) until July 12, 2012.
- Mr. Chesley requested an ASRS retirement date of July 2, 2012, based on ASRS Annual Statements providing an estimate that his earliest retirement date would be July 2, 2012. The ASRS denied his request based on A.R.S. § 38-711(27)(iii) and the fact that he did not obtain eighty (80) points until July 12, 2012.

Motion: Mr. Jeff Tyne moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination that Mr. Robin Chesley's earliest eligible ASRS retirement date is July 12, 2012. Mr. Tom Connelly seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 0 excused, and 2 vacancies, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the 2013 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding ASRS 2013 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, summarizing ASRS 2013 legislative initiatives and non-ASRS sponsored legislation. She noted HB2006, regarding political subdivision entities as members of the ASRS, was determined to have a negative actuarial impact on the fund if it were to pass. Trustees discussed what the agency position should be. Some felt the agency should educate the legislature on the financial impact to the ASRS, and remain neutral, allowing the legislature to determine who should be allowed to be members of the ASRS.

Ms. Sorensen noted Mr. Jeff Tyne's nomination was approved by the Senate Finance Committee January 24.

5. Presentation, Discussion and Appropriate Action Regarding the New Five-Year ASRS Strategic Plan

Mr. Matson introduced the topic noting the Strategic Plan provides direction and clarity and establishes priorities. He noted a goal of the ASRS is to be in the bottom 25% for costs, and the top 75% for service compared to other public pension funds. Mr. Matson said he would like the Board to think about the Strategic Plan and submit their comments and ideas for improvement to staff over the next month. At the next Board meeting, the revised Strategic Plan will be presented for discussion and possible approval.

Mr. Matson suggested the Board focus on the Plan priorities:

- Plan sustainability
- Risk management
- Operational effectiveness
- Productivity
- Optimal investment organization and management
- Continued modernization of technology, and business re-engineering

Mr. Matson suggested the Board also focus on the Plan vision to be a top performing benefit plan administrator, with a solid reputation and sustainable plan design, and be a leader in the areas of:

- Core Member Services
- Operational Effectiveness

- Investment Performance
- Funded Status

Mr. Matson said the Plan values and goals are also important areas of focus.

Mr. Guarino, Deputy Director and Chief Operations Officer, explained the agency has used the Strategic Plan model since 1998, based on the following principles:

- Look ahead with clarity of purpose (vision, mission, values, goals, and objectives)
- Measure performance
- Establish priorities; and launch initiatives
- Construct cost-efficient budgets and an effective work force
- Implement strong governance practices

Mr. Guarino said beginning with this iteration, the Plan duration will be changed from three to five years, per state reporting requirements.

Ms. Sara Orozco, Strategic Planning Manager, summarized the development of the Plan and its principles. She noted the two recent governance documents (prepared by Cortex and ASRS' Internal Audit Division) were helpful in establishing priorities and initiatives, in addition to staff and Trustee input.

Trustees commented the Plan is an exceptional document with a level of thought and depth they had not seen very often. They discussed some of the goals and priorities, and noted it is important to determine how staff and Trustees define and track success towards meeting certain objectives. Ms. Orozco asked the Board to ensure that their priorities were reflected in the Plan. Trustees indicated further engagement in the strategic planning process would be helpful.

Mr. Manos brought the legislative agenda item up to ensure a Trustee's question about possibility of recoverable costs was addressed. Staff suggested if HB2006 passed, the ASRS could suggest an ACR to recover costs. The financial impact is estimated to be \$27 million, present value, over a 30-year period. Mr. Matson suggested staff get more information about how this would affect employers and the ASRS.

6. Presentation, Discussion and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

Mr. Matson addressed the Board regarding the Board Governance Policy Handbook annual responsibilities, noting it articulates the roles of the Board, Committees, and staff and is mainly process-oriented. Mr. Matson noted the portions of the report which pertained to the Board, Committees, and the Director, as well as supplemental items. He highlighted some of the most substantive responsibilities.

7. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He said the total fund rate of return for calendar year 2012 was approximately 13.5% and the FY to date return as of January 23, 2013, was approximately 9.7%. Mr. Matson gave a high-level explanation of the Cash Flow report. He noted the Delinquent Employers report had been updated to a reduced amount of approximately \$73,400.00.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings

Mr. Jeff Tyne, Operations and Audit Committee (OAC) Chair, noted the following topics are to be discussed at the March 21, 2013 OAC meeting: employer audits and strategic planning.

9. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, said the EAC will discuss progress of legislative initiatives and have the annual presentation of the agency's communication plan. He noted the next External Affairs Committee Meeting will be held on February 1, 2013.

10. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

Mr. Tom Connelly, Chair, Investment Committee (IC), provided an update on the upcoming IC meeting, noting the following topics are to be discussed: pacing plan for private market investments, new monitoring documents under the new governance structure and how it involves the general consultant. Mr. Gary Dokes, Chief Investment Officer, said performance and risk reports will be discussed. The next Investment Committee Meeting will be held on February 20, 2013.

11. Board Requests for Agenda Items

No requests were made.

12. Call to the Public

No members of the public requested to speak.

13. The next ASRS Board meeting is scheduled for Friday, February 22, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

14. Adjournment of the ASRS Board

Mr. Manos adjourned the Board meeting at 10:37 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date